

Why did Hume Neglect American Paper Money?

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Abstract

David Hume's *Political Discourses* neglected almost entirely the paper money of British North America. This unprecedented monetary experiment that was conducted throughout Hume's life would soon revolutionize the global monetary order. I explain Hume's neglect by the Currency Act of 1751, the political and commercial goal of his essays, his negative analysis of economic laws, and his general aversion towards British America. His information about American paper money was of low quality. Not knowing that it was invented to circumvent British regulation, he missed an opportunity to further criticize British regulation and reduce the rift with the colonies.

* dg@drorgoldberg.com. A longer version of this paper, which includes Hume on (Latin) American coin, was prepared for the conference "David Hume and the Scottish Enlightenment: Economic and Philosophical Studies – celebrating 300 years of Hume's birth," held at Ben Gurion University in December 2011. I thank conference participants for comments, and Nathan Sussman for the discussion.

1. Introduction

David Hume is considered one of the most brilliant monetary theorists of all time. It is striking that he almost completely neglected something that a leading modern monetary historian calls a “monetary experimentation on a grand scale” (Grubb 2008). During Hume’s own lifetime, government-issued paper money of various types proliferated in another part of the British Empire – the North American colonies. Massachusetts started it in 1690 and more colonies joined as new wars broke or new recessions hit. Of the colonies which would become the United States, nearly half started issuing paper money around the time that Hume was born. By 1752 only Virginia and Georgia still did not have paper money, and they did in 1755 (Brock 1975). Hume, the “cosmopolitan economic theorist” (Ross 2008, 47), almost entirely ignored this. All he wrote on the subject in his famous 1752 economic essays was the following paragraph:

Before the introduction of paper-money into our colonies, they had gold and silver sufficient for their circulation. Since the introduction of that commodity, the least inconveniency that has followed is the total banishment of the precious metals. And after the abolition of paper, can it be doubted but money will return, while these colonies possess manufactures and commodities, the only thing valuable in commerce, and for whose sake alone all men desire money (Hume [1752] 1889, 338).

Significantly, this paragraph was not even in the main monetary essay “Of Money” but in the essay “Of the Balance of Trade.” In contrast, in 1776 Adam Smith devoted a few pages to American paper money, its varieties, moral qualities, economic effects, and lessons for monetary theory. The goal of this paper is to understand why Hume cared so little about American paper money.

The neglect of American paper money is highlighted by Hume's repeated references to American metallic money – the gold and silver brought from Portuguese and Spanish America – in nearly all his economic essays. His famous thought experiment of an increase in the inflow of money starts with British merchants going to the Spanish port of Cadiz – a major recipient of Spanish American silver (Hume [1752] 1889, 313).¹ Moreover, recently some writers on Hume's economic thought argued that he implicitly advocated a non-metallic theory of money (Wennerlind 2001, Caffentzis 2008).² If true, why did he nearly ignore the most pure contemporary example of non-metallic money?

Hume's only paragraph on American paper money is an example of his remarkable prophetic ability. Forty years later government-issued paper money was indeed banished and North America returned to metal. Hume was also correct in other predictions for the very long run, such as the power of a united Germany (Burton 1846, vol. I, 257) and the danger of wartime public debt to the British Empire (Hume [1752] 1889, "Of Public Credit"). It is striking, however, that he completely missed the coming paper money storm. In the half-century after he wrote, not only would America buy independence with spectacular wartime inflationary finance, but Russia, France and Britain would also conduct massive wartime experiments in unbacked paper money.

In order to solve the puzzle I look at three topics in Hume's publications, correspondence and memoranda: the goal of his writings, contemporary events, and his attitude towards distinguishing features of American paper money outside of their monetary context. The latter requires an explanation. American paper money was unique

¹ See also pp. 296, 318, 320-1, 329-30, 334, and Mossner (1948), #9, 30, 32, 128.

² For a brief critical review see Armon (2011), 12.

in that it was created in *America*, it was created wholly by *law* (as opposed to the market), and it was perceived in Britain as a *debtors'* fraud. I therefore examine Hume's general views on America, laws, and debts in his non-monetary writing.

I conclude that the little attention he gave to American paper money in 1752 emanates from most of the above: The political and commercial goal of his essays, the 1751 Currency Act, his general dislike of America, and his negative analysis of economic laws. His dislike of dishonest debtors may have offset these factors and induced him to be more interested in American paper money than otherwise. It probably did contribute to his negative tone towards that money.

By comparing his statements with facts, I also find that Hume was badly informed about money in America. He was misled into thinking that American paper money had always been a fraud and that it crowded out ample supplies of gold and silver. As the most famous British historian of his day, his view might have solidified the negative British public opinion of American money. Late in life, his friend Benjamin Franklin corrected his impressions about America, but future editions of his publications did not mention that. His ignorance was a missed opportunity for the great critic to further criticize the British regulatory state because it was British regulation which pushed British America into using unbacked government-issued paper money. Not knowing about it, Hume the historian ended up criticizing the American victims for the cunning ways they found around regulation, instead of criticizing the regulators as he usually did.

In the literature on Hume, Robert W. Dimand (2008) already collected Hume's few references to American paper money, in a recent article which reveals Hume's involvement with terminating Canada's paper money in the 1760s. The current paper

focuses on 1752, tries to explain why Hume cared so little, explores the origins of his knowledge base, and checks how that knowledge base conflicted with reality.

The inquiry begins in Section 2 by reviewing facts about American paper money and the misleading contemporary British literature on that money. Section 3 turns to the period of composing the *Discourses* – the goals of the publication, political events, and Hume’s correspondence. Section 4 examines his general attitude towards America, laws, and debts. Section 5 explains changes in his opinions after 1752. Section 6 concludes.

2. American Paper Money: Facts and Literature

2.1. Facts: 1607-1752

From the earliest days of American colonization there was a shortage of currency (Nettels 1934). All colonies resorted at first to agricultural produce as allowed by the environment: Tobacco, sugar, grain, and rice. These simplest products were recognized by colonial laws as legal tender for paying debts and taxes. The colonies blamed an adverse balance of payments with England. They imported too many English manufactured goods and exported too little agricultural products. The imbalance had to be settled with coin, leading to a constant flow of coin from the colonies to England. This was fine with the mercantilists in England who prohibited coin exportation from England. The colonies obtained most of their coin from Spanish America through trading or piracy, but it kept flowing into England. In their desperation the colonists adopted Native American seashell money and even used silver plate, bullets, fur and fish as money.

The problem was most severe in Massachusetts. The persecution which forced Puritans to emigrate led them to what they called “cold, barren New England” because the rest of America was officially either Anglican or Catholic. The climate and soil did

not yield super staples like the tobacco and sugar of the south. The Puritan middle class families imported a large variety of English household manufactures to maintain their English standard of living. Imports therefore exceeded exports considerably and the rapidly growing, commercially-oriented population was starved of coin (Sylla 1982). This population was also unique in its rebellious attitude and its high human and physical capital. These features enabled Massachusetts to go beyond the primitive commodity moneys of other colonies (Goldberg 2012).

When Charles I was executed in 1649, the royal coinage prerogative was gone. In 1652 Massachusetts opened a mint. In the early 1680s the restored Charles II shut it down. The shortage of coin was augmented by the Navigation Acts which prevented direct trade with Spanish America. Peace with the Dutch disallowed privateering. Thus, by 1687 Massachusetts was not allowed to import coin from England, produce coin, trade for Spanish coin, or steal it. So desperate was the coin shortage that one town paid its taxes by delivering its main product – (empty) buckets.

Shortage of coin in England itself led to ideas of paper-issuing banks based on produce and land titles instead of coin (Horsefield 1960). One of the promoters of such schemes, John Blackwell, fled to Boston in 1684 due to renewed persecution of Puritans. In 1686 he launched the plan there in collaboration with the government, but in 1688 a new English governor invalidated all land titles in New England and the bank was aborted at an advanced stage (Goldberg 2011a).

In 1690 Massachusetts incurred a large war debt. With both coin and land-backing out of the picture due to English regulation, the government printed unbacked paper and supported it only by accepting it for taxes (Goldberg 2009a). War in 1702 led

Massachusetts to print more paper money and South Carolina joined the money printing business. War in 1709 put the entire Northeast on paper money. From there it was a slippery slope. Eventually all colonies issued paper money, usually because of wars. In Massachusetts and elsewhere the taxes required to absorb the paper money were postponed further and further, leading to chronic inflation throughout British America. Land banks were reintroduced in the 18th century as ‘colonial offices’ in a few colonies, injecting the government’s money in return for mortgaged land titles.

The big picture and punch line to be kept in mind is that English regulation of coin, land, trade, piracy, and (indirectly) religion, pushed the colonies into using government-issued unbacked paper money.

French Quebec started issuing paper money, made of playing cards, already in 1685 (Goldberg 2009b). It was at first a temporary substitute due to a delay in the annual coin shipment from France. The notes were forced on the soldiers for whom they were issued, and on all sellers, and were redeemable in coin upon the coin’s arrival a few months later. They were identical to European “siege moneys” – short-term substitutions of paper for coin in besieged cities. However, while the siege moneys were eradicated when the wars ended, the Canadian money continued on and off until 1719, and in 1729 it was resumed on a permanent basis until the British occupation.

2.2. British Eyewitness Accounts of American Paper Money

2.2.1. George Berkeley

Irish philosopher George Berkeley lived in Rhode Island 1729-1731 (Fraser 1901, vol. I). As son of English colonists in Ireland, he had natural sympathy for America’s colonists who also faced hostile natives and British restrictions on coinage and manufactures

(Berkeley 1735, #79, 87, 100, 318). He admired America's potential to lead the world and called it "Time's noblest offspring" (Fraser 1901, vol. IV, 365-6). His hosting colony held the record for colonial inflation. Berkeley was wise enough to distinguish between the different lessons of this American experiment. Back in Ireland he anonymously published *The Querist* (1735-7). Much of it was about money. He argued it was merely a ticket or counter, whether made of metal or paper (Berkeley 1735, #21, 23, 25, 26, 37, 42, 49). We might expect this insight from the inventor of the philosophical theory of immaterialism, but Berkeley hints that he learned that in New England which was just fine without metal (ibid, #296, 314, 316). At the same time he warned not to follow New England in its abuse of paper money (ibid, #238, 305). He also stated that before paper money "they had gold and silver current among them" (ibid, #316, Berkeley 1737, #109).

Berkeley's last line is mostly imaginary. There was never a time before paper money when gold and silver were common in America. Silver was always short and gold was irrelevant before the Brazilian discovery in the 1690s, which happened after American paper money was born. Berkeley also described and advocated a land bank without mentioning its existence in America (Berkeley 1735, #261-279; 1736, #23, 24).

In 1750 a revised edition with his name was published in London and an identical one was published in Glasgow in 1751 (Fraser 1901, vol. IV, 418), without the banking queries (ibid, 421).

2.2.2. William Douglass

A Scottish immigrant, William Douglass, M.D., settled in Boston in 1712. He published an anonymous pamphlet in 1740 in which he documented the inflation, severely

criticized paper money as debtors' fraud, and called for Parliament to intervene. He misled his readers about the 17th century:

At the first settling of the New England colonies, their medium was sterling coin at sterling value, and barter; some part of their taxes was paid in provisions and other produce, called stock in the treasury. ... Anno 1652, they proceeded to coin silver shillings, six pences, and three pences ... Silver continued current at this rate by sundry subsequent Acts of Assembly till Anno 1705 (Douglass [1740] 1857, 8).

Douglass did not mention the closure of the mint in the 1680s and he was not there to see the money shortage. His research was sloppy, as evident by his claim that tax payment in produce had been called "stock in the treasury" – a line he picked from contemporary paper money.³ Douglass proceeded in misleading his readers:

Before paper-money took place in New England, silver abounded in currency as much, and perhaps more, than in many of our colonies ... Silver began to be generally shipped off as paper became the currency (Douglass [1740] 1857, 29-30).

This 1740 pamphlet was published in London in 1751, probably in relation to the final petitions and debates that preceded the Currency Act of that year. In 1748 Douglass published a comprehensive book on the colonies, which included more of the same content and spirit of the pamphlet. The book was published in London in 1755.

3. Writing *Political Discourses*, 1749-1752

3.1. The First Currency Act

³ Tax payment in produce was called "country pay." The phrase "stock in the treasury" was first used in the first paper money of 1690, as a dishonest promise to redeem the notes if there would be produce in the treasury. There was none after 1690 because the taxes were paid in paper money instead. But the promise, much like the "Silver Certificate" promise in 20th century United States, was retained on the notes.

British merchants who received a continually depreciating paper money in payment for their goods were as unhappy as William Douglass was about the inflation. They pushed Parliament to eliminate paper money. The issue was debated on and off since 1739. In early 1749 it seemed like all paper money would be eliminated by statute but the colonies prevailed for a while. New England agreed to use British coin that it was owed to redeem its paper money. When Rhode Island wanted to print more money in 1751 the merchants resumed lobbying and the Currency Act passed in June 1751 (Davis 1901, vol. I). It forbade the New England colonies from imposing their paper money on creditors in peacetime. They kept accepting it in tax payments.

3.2. The Purpose of the *Discourses*

Hume's first publication – the 3-volume *Treatise of Human Nature* (1739-40) – was a commercial failure. He thought that it failed because it was in the form of a systematic treatise rather than in the form of essays, which were at that time the most popular literary form. In 1741 he made a successful transition to the essay form and stuck with it for the next decade (Mossner 1980, 141-2, 269). In the *Discourses* Hume therefore had no pretensions to cover everything in economics, but only selected topics which seemed interesting and relevant to him. In 1752 American paper money was not a top issue in Britain. It was certainly not a controversial issue. Other than the colonists' lobbyists there might not have been anyone in Britain who supported colonial paper money. Hume wrote about “problems of vast interest” and controversial issues and took sides against regulation of the economy (Rotwein 1970, Introduction and ch. III; Mossner 1980, 269; Emerson 2008, 26). Referring to politicians, he wrote in “Of Money”: “For to these only I all along address myself” (Hume [1752] 1889, 312). Controversy, of course, was also

good for sales to the general educated public. The topic of American paper money was out of sight for most Britons, seemed nearly settled by the 1749 New England redemption and the 1751 Currency Act, and involved no controversy at home. There was almost no reason for Hume to write about it.

3.3. Sources on American Paper Money

Hume never visited America and did not reveal his sources on America and its money. There is good reason to believe that in 1752 he was exposed to the writings of George Berkeley and William Douglass.⁴ Hume owned a copy of the 1751 Glasgow edition of Berkeley's *Querist*, but we don't know when he bought it (Ross 2008, 38). Berkeley had close contacts with Hume's professors in Edinburgh while Hume was there. Hume himself acknowledged that it was advised to read Berkeley before reading his *Treatise of Human Nature* (Mossner 1980, 48-9, 51, 97, 104). It is described by one biographer as mainly a commentary on Berkeley and Locke (Grose 1889, vol. I, 15, 23, 36). It is therefore likely that Hume was quick to follow Berkeley's other writings, including *The Querist*.⁵ With respect to Douglass, evidence is more circumstantial. His book was owned by Adam Smith, who would rely on it for key facts regarding American paper money in 1776 (Bonar 1894, 31; Smith [1776] 2008, 223, 433). Smith probably knew Hume since 1740 (Burton 1846, vol. I, 116). By 1752 their acquaintance was so much established that Smith wrote then: "I should prefer David Hume to any man for a colleague." Since Hume and Smith helped each other's research and shared information on money and other

⁴ Two other sources he might have used are speculated by Ross (2008), 44. These were second-hand sources, not written by people who lived in America.

⁵ Schabas (2008), 133, and Dimand (2008), 174, already noted Berkeley's possible influence on Hume's monetary thought, but not Berkeley's eyewitnessing American paper money.

matters (Burton 1846, vol. I, 126; Dimand 2008 179, n1), Hume might have read the pamphlet or book of their fellow Scotsman by 1752.

3.4. Correspondence

Hume started writing *Political Discourses* in 1749 (Hume [1776] 1906, xvii). In April he wrote to Montesquieu:

Before 1706, there was a sufficient quantity of gold and silver in all our colonies for ordinary purposes; paper credit or current paper was introduced in them, which caused all the silver to depart and had such pernicious consequences that Parliament is resolved to abolish it at this session (Rotwein 1970, 188).

As mentioned above, the only appearance of American paper money in the *Discourses* is in the essay “Of the Balance of Trade.” There is correspondence about the draft of this essay. In 1750 Hume sent the draft to his friend James Oswald, who was a Member of Parliament and a top financier (Burton 1846, vol. I, 156, 168). Oswald’s commented on something that Hume had written on American paper money:

As to the paper money of the colonies, it is all a cheat, and, like all other cheats, has been attended with very bad consequences. Paper there is made to represent so many pounds, and to pass in payment accordingly. But as it is attended with no term of payment, and no fund to pay either principal or interest, according to any standard value, those nominal pounds have altered in their value, and diminished in proportion as the paper increased. According as such nominal pounds procure labour and commodities in the country, the relation between them and sterling alters – the rate of exchange against them increases; as it always will do in proportion to this uncertainty (*Selections* 1854 Part II, Vol. I, 107).⁶

Hume replied:

⁶ Rotwein (1970), 196, misdates it as 1749.

Besides the bad effect of the paper credit in our colonies, as it was a cheat, it must also be allowed that it banished gold and silver, by supplying their place (Rotwein 1970, 199).

Replying in November 1750, Hume corrected Oswald: Paper money *was* a cheat. This was shortly before Parliament resumed deliberations on colonial currency and passed the Currency Act. Hume concluded from the events of 1749 that abolition of all colonial paper money – at least as legal tender for debts – was a done deal. When Hume writes “it must also be allowed,” he indicates that this was not written in the draft he sent to Oswald. What was in Hume’s draft? Oswald’s reply indicates that there was something there and Hume’s reply indicates that it wasn’t much. To the false belief that English America used to have enough silver before paper money he now added gold.

These letters to Montesquieu and Oswald form Hume’s earliest documented view on American paper money. Comparing the facts (Section 2) with his ‘facts’ about the former prevalence of gold and silver, the significance of 1706, and Canada, reveals that he was dead wrong. The first error can be attributed to both Berkeley and Douglass. The second error might be attributed to Douglass who erroneously mentioned 1705 as the last year of coin. The source for the Canada error is unknown.

3.5. Publication

Since the 1751 Currency Act did not abolish paper money but only restricted that of New England, in 1752 Hume was more careful. He wrote of the abolition as a future possibility and predicted the consequences. More importantly, he repeated his claim to Oswald that English America used to have enough gold and silver before paper money.

It is telling that the only reference to American paper money appeared not in “Of Money” but in “Of the Balance of Trade.” It was mentioned only as a way of explaining why America did not have coin. American paper money was not interesting enough in its

own right. Eliminating it would have reduced the price level and stimulated exports. Period. Theoretically it was not interesting while it was alive. Even its chronic inflation was not interesting enough to mention, only hinted by referring to the metal outflow as “the least inconveniency.”

Hume was right about one thing. The United States did eventually abolish paper money, returned to coin in 1792, and lived happily without government paper for many years. Whether this would have been possible without Independence from British restrictions on trade and manufactures is another question. Hume noted in that only paragraph on American paper money that trade and manufactures were the real issue but, surprisingly, he failed to denounce British regulation of trade and manufactures in America as likely to prevent coin from returning to America.

The main essay on money (“Of Money”) was dedicated mostly to specie. As brilliant as it is, in terms of topics and empirics most of it could have been written a century or two beforehand. Only one paragraph was about paper money – convertible banknotes. Banks should have a 100% reserve ratio, otherwise they would only increase the price level and diminish exports.⁷ Application of this conservative principle to American unbacked paper money would imply complete objection to it.

Hume’s appeal to popular topics was successful. Of all his writings, in the *Discourses* he perfected his ability to write popular literature: “the only work of mine that was successful on the first publication,” he later recalled (Hume [1776] 1906, xvii).

4. Distinguishing Features: America, Laws, and Debts

I try to learn something about the origins of Hume’s attitude towards American paper money by looking at some of that money’s distinguishing features: It was made in

⁷ Paganelli (2011) elaborates and calls him a “pre-modern monetary thinker.”

America, it was entirely made by law and not in the market, and it was widely believed in England to have been a scam by dishonest debtors.

4.1. America

This aspect of Hume's intellectual history is especially interesting due to the striking similarities and contrasts between Scotland and British America. Following the 1707 Union, the Scots were still learning to become British. Many of them, Hume included, were not sure about their new identity. The North Americans, on the other hand, were slowly on their way out of the British Empire. Many no longer had close relatives in England as they did in the 17th century. These two peripheries of the British empire were going in opposite directions while having a similar confusion about their identities.

Scotland shared with New England – the origin of American paper money and the center of its abuse – another key feature: A barren, rocky soil, and bad weather, which were not good for agriculture (Cameron 1967, 60-1; Nettels 1934). In both places the result was shortage of coin as it was sent to England to balance the excess of imports over exports. In both places it led to paper money of various types (Kerr 1884, 67, 72-3; Section 2 above). Scotsmen founded two of the most influential foreign public banks: William Paterson founded the Bank of England while John Law founded the Banque Royale. While other English banking was strangled by the Bank of England, fairly unregulated banking flourished in the less sophisticated Scottish periphery. It was also distance from the empire's core which allowed British America to get away with a different monetary experiment – unbacked government-issued paper money. In one place markets took over thanks to Imperial inattention and the elimination of local government

(Cameron 1967, 61); in the other place local governments completely took over – they issued paper money, backed it with legal tender laws and taxes, and ran the land banks.

Hume almost went to America. Twice. In 1734 he worked for a sugar merchant in Bristol, which was the second largest city in England and one of its top ports (Ross 2008, 34-6). He hoped to be the merchant's agent and "to toss about the world, from the one pole to the other." This merchant was importing from Jamaica but Hume worked only as a clerk and left on bad terms after four months. (ibid, 38; Mossner 1980, 88-91).

About 1737-1741 Hume wrote some memoranda, documenting various facts he read on many issues.⁸ His first documented thoughts on America display jealousy of its independence and concern with the competing northern economy, while recognizing the economic value of the southern economy to Britain (Mossner 1948, #14, 33, 34). Virginian tobacco was Scotland's major import and re-export (Cameron 1967, 60, 62). South Carolina and Maryland had already had paper money. Hume noted that Roman colonies had the right to vote (Mossner 1948, #115). Here was a seed for a favorable view of the American colonies in the contentious future.

In 1746 Hume joined the military as secretary to a general who was about to attack Canada as part of the War of the Austrian Succession (Mossner 1980, 188). Hume wrote to a friend:

A letter you have good reason to expect from me, before my departure for America; but a long one you cannot look for, if you consider that I knew not a word of this matter till Sunday last at night, that we shall begin to embark from hence in two or three days ... Such a romantic adventure, and such a hurry I have not heard of before (Burton 1846, vol. I, 208).

⁸ For dating controversy see Burton (1846), vol. I, 124-6; Mossner (1948), 495; Ross (2008), 41.

The expedition was delayed for months, so Hume had time for fantasies about America:

I have been asked, whether I would incline to enter into the service? My answer was, that at my years I could not decently accept of a lower commission than a company. The only prospect of working this point would be, to procure at first a company in an American regiment, by the choice of the colonies. But this I build not on, nor indeed am I very fond of it (*ibid*, 209).

The expedition never made it to America. Hume mentioned the episode in his deathbed autobiography with no hint of sorrow that he never saw America. His heart and mind were not in America but in Europe. He called France “the most potent nation in the universe” and he admired Paris and Europe’s other great cities (Hume [1776] 1906, xx; Mossner 1980, 96, 194).⁹ In 1748 he joined a diplomatic mission to Europe. Upon entering Italy he reported: “I have kissed the earth that produced Virgil.” Against all odds he managed to ignore the huge cathedrals he saw in Cologne and Milan and he dismissed the Rhine fortresses as mere “palaces.” His biographer Burton explains: “his thorough neglect of both the baronial and ecclesiastical architecture of the Middle Ages, is characteristic of a mind which could find nothing worthy of admiration, in the time which elapsed between the extinction of ancient classical literature, and the rise of the arts and sciences in modern Europe” (Burton 1846, vol. I, 265-9; Mossner 1980, 212-3). Early in his life he already despised Medieval culture (*ibid*, 47).¹⁰

It’s not just that classical and contemporary Europe was better than America. America may have reminded him of the Medieval Europe he hated. While America tried to catch up with Europe on so many fronts, some of its most important features were

⁹ There were strong cultural ties at many levels between Scotland and France (Mossner 1980, 92).

¹⁰ He also ignored the famous cathedral in Rheims (France) where he lived for a year (Mossner 1980, 96).

simply embarrassing. It was a place infamous not only for fraudulent paper money but more so for slavery – which he strongly denounced.¹¹ It was Britain’s waste basket, absorbing many of Britain’s convicts and its uncivilized, potentially rebellious Highlander troops – considered by their fellow Scotsman Hume as “the most worthless” Britons (Emerson 2008, 23; Mossner 1980, 177). In 1751 Hume referred to the colony of New York: “their Cities (which deserve only the Names of Villages)” (Mossner 1980, 266). If America held any promise of modern republicanism, this would not have excited Hume, as indicated by his contemporary analysis of the United Provinces (Burton 1846, vol. I, 242-3; Pocock 1985, ch. 7). British America thus drew little of his affection, and hence little of his attention. Traces of that attitude can of course be found even today among Europe’s elites.

Indeed, in the *Discourses* Hume missed many obvious opportunities to use America in examples. In “Of Commerce” he discussed the positive correlation between distance from the equator and the progress of society (Hume [1752] 1889, 298-9). Instead of using Europe as an example, he could have compared New England to the southern and island British colonies. These were better natural experiments because the inhabitants were all British subjects. In “Of Luxury” he could have used the same example to illustrate the advantages of luxury (ibid, 301). A bigger miss is that he did not mention that luxuries from America (tobacco, sugar and fur) were the economic and naval backbone of the first British Empire. In “Of Money” he could have used Berkeley’s

¹¹ “The little humanity, commonly observed in persons, accustomed, from their infancy, to exercise so great authority over their fellow creatures, and to trample upon human nature, were sufficient alone to disgust us with that unbounded dominion” (Hume [1752] 1889, 385).

American example to prove that money was just a counter, but he chose instead an observation by Anacharsis the Scythian about classical Greece (ibid, 312-3).¹² In the same essay he could have used America when discussing societies using produce for money. Virginia and Maryland were still using tobacco at the time. Instead, Hume discussed Europe, where backward provinces still used produce (ibid, 315-8).¹³

4.2. Laws

Hume had a love-hate relationship with law. He was born to a family of lawyers and was surrounded by leading lawyers friends and relatives most of his life (Mossner 1980, *passim*). His university was dominated by studies in law and later he tried to pursue a law career for three years (Hume [1776] 1889, xv). He was good at using the law for personal purposes (Mossner 1980, 170-2, 182-3). He even served as a military judge briefly (Burton 1846, vol. I, 210-3). On the other hand, he did not like lawyers in general,¹⁴ and he quit his law career to become a philosopher. His biographer Burton, himself a lawyer, had the impression that Hume had “antipathy to the study” of law and that “acts of Parliament, journals, writs, legal documents” were “all things which his soul abhorred” (Burton 1846, vol. I, pp. 28, 363).

Hume liked even less what laws did to the economy. His economic writings were mostly about how laws impeded trade and economic activity. He was interested in the

¹² According to Emerson (2008), 10, Hume generally preferred older examples to contemporary ones in order to show that his arguments were general.

¹³ Had Hume considered 17th century New England he might have given up his argument entirely. The Puritan middle class families had a coin shortage and paid in produce not because of rude habits of autarky as he claimed, but exactly because they imported too many fancy English manufactures.

¹⁴ He thought they were parasites and cheaters (Hume [1752] 1889, 326; Burton 1846, vol. II, 416).

“natural” flows in the economy, with notable explicit allusions to physics of fluids and a general inspiration from Newton (Schabas 2001; Mossner 1980, 43, 51, 73-5). He showed that all would be well and all things would balance in equilibrium if only the interrupting laws were removed.¹⁵ Given the theme of his critique – laws interfering with “nature” – there was little he could say about government-issued unbacked paper money which was wholly *created* by law rather than interrupted by it. Removing the laws from paper money would have resulted in their natural equilibrium of being worthless. This was a trivial observation to make. The only interesting thing he could write about paper money from his usual point of view was that if government support for paper was gone, then the natural flow of metal (the natural money) would bring metal back to British America. And of course, he did write that and nothing more. The exact methods of supporting paper money were not interesting for him. The differences between Scotland’s civil law and the common law of England and the colonies may have further reduced his motivation for legal research on colonial money.

4.3 Debts

In 1746 Hume became a bitter creditor, not being fully paid for short stints as a tutor for an insane Marquis and as a secretary and judge in the naval expedition. He would chase after both debts until the 1760s. Whether on practical or moral grounds – debts were not taken lightly by him (Burton 1846, vol. I, 206-7, 222; Mossner 1980, 204, 206-7).

In 1752, still without proper pay from two 1746 employers, Hume was not likely to be sympathetic towards dishonest debtors. He agreed with Oswald that colonial paper

¹⁵ At times he was skeptic about effectiveness on laws (Schabas 2008, 130-1), but he apparently thought some of them effective enough to harm the economy.

money – blamed mostly for eroding debts – was a cheat. His support for an increasing money supply was indeed not based on eroding debts but on a money “illusion” (Hume [1752] 1889, 314, fn 1). As a creditor of the government, he was especially angry. His 1752 essay “Of Public Credit” had a very different tone from the others. It was not just a learned critique. Hume was furious, rabid and apocalyptic. He mentioned the various debt-reduction schemes in Rome, France and Holland: Debasement, reduction of interest ex post, and taxation of interest payments. He predicted that in Britain

such a practice will deceive nobody; and public credit will probably tumble at once, by so dangerous a trial (Hume [1752] 1889, 371).

Here too was a glaring omission of America. By 1752 there were 11 British American colonies which had or had had paper money. Eight of them issued it to pay for war expenses ex ante or ex post and called the money ‘bills of credit.’ Hume did not mention them at all in this essay, but they surely gave him no positive attitude towards American paper money when he did write about it elsewhere.

5. Epilogue: 1752-1776

Hume’s views on America and its money changed dramatically after 1759, thanks to his new friend Benjamin Franklin (Hill 1888, 30, 49, 225; Bigelow, 1902, vol. II, 109). Franklin worked hard to educate Hume about America and its money. He told Hume that he was doing so in order that Hume, by then a best-selling historian, would change British public opinion of America (Bigelow 1902, vol. I, 410-3). Franklin convinced Hume that America did not have enough coin before paper money, and Hume wrote in a 1769 letter: “Our colonies in America, *for want of specie*, used to coin a paper currency” (Rotwein 1970, 215; my emphasis). Perhaps Franklin cited memories of his English-born father who immigrated to Boston in 1682 and experienced there eight years of the worst

coin shortage before the birth of paper money. Unfortunately for Franklin and America, Hume did not change his opposite, earlier statement about American money in later editions of the *Discourses*.

In a later edition of the *Discourses* Hume was excited about Scottish land and produce banks and thought them to be local inventions (Hume [1752] 1889, 338-40). Franklin showed him that America already had such banks much earlier, but here again Hume noted that only in a letter and did not change the *Discourses* (Rotwein 1970, 215). Franklin even convinced Hume that the future of his work and English literature in general lies in the expanding and tolerant American population (Bigelow 1902, vol. I, 413 and fn *; Greig 1932, 258). Hume's view of America also improved because he faced bigotry as a senior civil servant in London. Already in 1768 he wished for a general revolt of all colonies and for London to be ruined (Hill 1888, 56-7; Mossner 1980, 106; Burton 1846, vol. II, 417; Greig 1932, 210).¹⁶

6. Conclusion

In 1752 American paper money was not a top priority for David Hume. There were much larger debates about British mercantilism and regulation in which the relevance of American paper money was not easily apparent. There was no controversy at home about American paper money. The problem seem to have been solved or nearly so with the redemption of New England paper money and the first Currency Act of 1751. Hume's popular essays had no much room for American paper money, and in any case there was not much he could write on it as part of his theme of removing economic laws. On the other hand, America's metal money, that is, Latin American gold and silver, was the

¹⁶ He may have seen such revolts as a way to reduce the public debt he hated (Pocock 1985, ch. 7).

main supply of European coinage. It could not be ignored, no matter how little Hume cared for Latin America.¹⁷ It also turns out that the cosmopolitan philosopher was first and foremost a Europhile.

In neglecting American paper money Hume was in line with most contemporary British authors on money and trade. Some authors ignored paper money altogether, while others ignored its path-breaking implementation in America. Examples include Jacob Vanderlint ([1734] 1914), the young Josiah Tucker (1750; Clark 1903, 179, 194), Francis Hutcheson (1753), and James Steuart (1767). Much like Hume, Joseph Harris (1757-8, Part I, 42-3), gave American paper money a paragraph. In his later essays on the strains with British America, Tucker (1774, 150-1; 1775, ix-x; 1776, 88) denounced its paper money as fraud. The fullest treatment would wait for Adam Smith.

In some sense Hume therefore serves as a case study. There was in Britain in the middle of the 18th century a general dislike of America, and economic authors focused on contemporary domestic British problems as long as that disliked America was quiet. This is probably why everyone before Smith missed the coming paper money storm. On the other hand, there is a good reason why Hume is more famous than all these other authors combined, so we could expect more from him. Here enters the importance of the Hume-specific explanations provided above: The coincidence of timing with the Currency Act, the form of essays rather than a treatise, and his negative treatment of economic laws.

While the latter explanation is an implication of Hume's economic mind and legal limitations, the others are purely random and relate to the period 1749-1752. He might have cared more about American paper money before the first Currency Act seemed to

¹⁷ For a detailed comparison of Hume on America's metal vs. paper see Goldberg (2011b).

solve its problem, or after the general American problem became a bigger issue. He might have written an economic treatise a decade earlier, before despairing over the commercial failure of his *Treatise of Human Nature*, or a decade later after the big success of his *History of England*. It is somewhat frustrating that the progress of monetary theory was impeded by such bad luck.

Comparison with Smith is especially interesting.¹⁸ Smith's unprecedented interest in 1776 in American paper money surely stemmed from its contemporary use as the lever of the American rebellion, but other events happened since 1752. Government-issued paper money was introduced in Virginia (1755), which was Glasgow's main trading partner,¹⁹ and in Russia (1768) (Owen 1989). A second Currency Act was passed in 1764. John Law – whose traumatic experiment may have convinced mid-century authors that nobody would try anything like that ever again – faded away from living memory.²⁰ Smith was not averse to legal material and carefully cited specific laws in both his lectures and publications, something that the abstract Hume almost never did.²¹ He was thus more likely to handle well the case of a purely law-created money. Smith wrote a treatise while Hume wrote essays. Finally, Smith may have written extensively about American paper money exactly because nobody else did.

Back to Hume, in 1752 he had very little credible information about American money and banking. In the current Information Age it is important to realize how severe

¹⁸ Explicitly about American paper money, Smith wrote 12 times more words than Hume did. He did so in a chapter about money (Smith [1776] 2008, Book II, Chapter II).

¹⁹ Smith's 1760s lecture notes already mention that (Smith 1978, 520-1).

²⁰ Smith's attention to Law vs. America changed dramatically from his lectures to his book.

²¹ Smith was also a son of a lawyer. His LL.D was an honorary degree, but was related to his law lectures.

was the problem of information in past centuries and how it could mislead the greatest minds. The analyses of earlier scholars should be examined and evaluated not only against reality as we know it to have been, but especially against the reality they imagined from the limited reliable information they could possess. It is debatable whether the Scottish Enlightenment was an outcome of the distance from an overbearing London and a defunct Oxbridge. What is clear is that this distance damaged the knowledge base that great thinkers could use in their distant periphery. Especially when it came to another periphery – the American colonies – information usually had to go through London before reaching Scotland. Some of it got stuck in London, mostly as official documents, and some was transmitted to Scotland with lags and distortions.

A most intriguing possibility is that Hume's information problem and his own biases mattered not only for his monetary theory but also contributed to the rift between Britain and its colonies. Even though Hume was later in favor of the Americans, his 1752 *Discourses* roundly denounced American paper money and may have negatively influenced British politicians' view of America. Had Hume known the truth – that British regulation caused American paper money – his *Discourses* could have brought reconciliation instead. Franklin's efforts in the 1760s changed Hume's opinions in his letters but not in later editions of his book.

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